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Norman, John Henry

International interchanges by means of barter...

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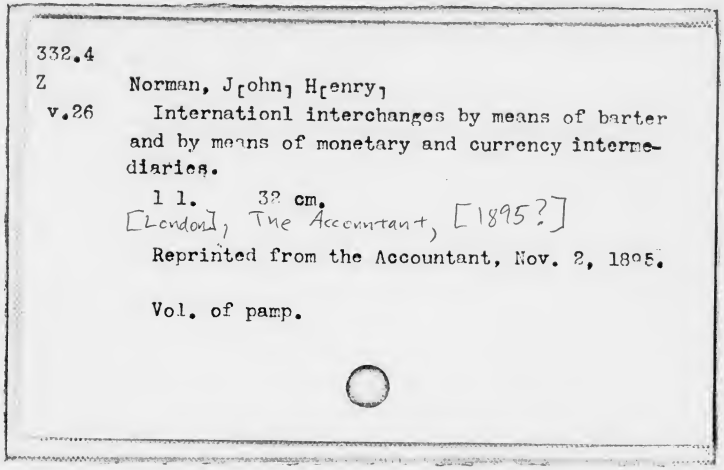
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INTERNATIONAL INTERCHANGES BY MEANS OF BARTER, AND BY MEANS OF MONETARY AND CURRENCY INTERMEDIARIES.

[Reprinted from *The Accountant*, November 2, 1895.]

SIR,—I shall be much obliged if you will kindly give insertion to this letter in your valuable journal.

Supply and demand are the immediate governors of the ratio at which one thing will exchange for another thing. There are, consequently, nine descriptions of interchanges. One thing at cost value for another thing at cost value—(1), or for another thing at more than its cost value—(2), or for another thing at less than its cost value—(3), one thing at more than its cost value for another thing at more than its cost value—(4), or for another thing at its cost value—(5), or for another thing at less than its cost value—(6), one thing at less than its cost value for another thing at less than its cost value—(7), or for another thing at its cost value—(8), or for another thing at more than its cost value—(9).

The ultimate governor of the ratio at which the vast mass of material things will interchange is cost of production. Cost of production may be defined as value-giving factors in the thing produced. I. Value-giving factors in the shape of present labour in the production of such things as do not require the application of capital, or the payment of rent, interest, or other charge than the support of the labourer during the process of production to the time of the interchange of the things produced. II. Value-giving factors in the shape of past and present labour used in the production of such things as require the application of capital, and the payment of rent and interest, besides the support of the labourer during the process of production to the time of the interchange of the thing produced.

A hitherto undisputed dogma of political economy is "That the substitution of money for barter makes no difference in exports or imports, nor in the law of international values," J. S. Mill, Book 3, ch. 21. (1) In the light of experience, especially since 1873—the commencement of the period of the vastly altered ratio between gold and silver—it may be questioned whether this teaching is not erroneous. With regard to the internal interchanges of one country, the maintenance of an effective gold intermediary in no way affects the conditions of current interchanges by means of barter. If a high price is paid a high price has to be given, and if a low price is paid a low price has to be given. This is not the place to enter upon the effect of the altered purchasing power of the intermediary upon deferred obligations, a large and most serious subject. The same rule would hold good in countries where prices consist of an effective silver intermediary. There is no evidence to show that Mill knew of more than one intermediary, or as good as one only, entering into the world's prices. We now know that there are six intermediaries. We also realise that the altered ratio between gold and silver operating through the foreign and colonial exchanges has enabled effective silver standard countries to undersell their products in gold standard countries. We further know that the inconvertible paper prices of more than 245 millions of people of different countries has the like injurious effect in gold standard countries. Both these intermediaries, cheap silver and inconvertible paper, as well as the intermediary consisting of silver-cum-countercharge, have a tendency to destroy the industries which are carried on in gold standard currencies, if they are also carried on in countries using the three other intermediaries. If this is the conclusion which cannot be escaped, and the cause is tracked to the wretched intermediaries at present used in the world, the general understanding upon the subject will be sufficiently enlarged to commence the labour of discovering a remedy. It would appear to be intimately bound up with the world's field of wages. I have never met anything in the writings of political economists in dispute of Mill's dogma. Of course, if Mill is right, Bagehot would be right in his dogma, viz., "That, given a fall in the gold price of silver, there must be a general rise of prices in silver standard countries." But we all know that Bagehot was wrong. In the Journal of the British Economic Association for June 1895, under the head of "Professor Lexis on Bimetallism," there appears the following:—"For I have already pointed out that differences in the exchanges play only a relatively subordinate part in this competitive struggle, and have set forth that the financially rotten paper-standard currencies even under bimetallism would not attain to stable metallic currency." I have written to the Professor on this, and am at present without a reply. On page 93 of the final report of the Royal Gold and Silver Commission 1886-9, there is a memorandum by Sir Thomas, now Lord Farrer, as follows:—"I wish to add for the sake, not of dissent, but of distinctness, that I do not believe that the change in the relations between gold and silver currencies has lowered English prices." I find a memorandum of my own on this final report dated March 20th 1889: "I fail to find a trace of the possession of 'a masterly skill in bullion and coin' by a single commissioner of the twelve who signed the report. One of the most active of the commissioners informed me that he did not understand the exchanges, and that possibly my evidence on this branch of the monetary question might be desired by the commissioners."

Upon the recognition, by responsible statesmen and political economists, that at the present moment the interchanges of the world are carried on by means of six different intermediaries; that these different intermediaries enter into all international interchanges of commodities for commodities, and of necessity must alter prices somewhere; they will recognise the tremendous dilemma the world is in through the miserable condition of its currencies, and they will strive to devise some means to effect a remedy,—the statesmen of each state for the protection of its own industries.

It will be interesting to give the populations of the international trading world under four heads, indicating the intermediaries used by them.

I. Effective gold: gold-cum-coinage charge included.—254 millions, of whom 115 millions on the continent of Europe.

II. Effective silver: silver-cum-coinage charge included.—400 millions, in Persia, the East, and Mexico.

III. Silver-cum-counter charge.—266 millions, of whom 226 millions in British India, Ceylon, and Mauritius.

IV. Inconvertible paper.—245 millions, of whom 202 millions on the continent of Europe.

I would refer your readers to Chap. III. on "Money in International Trade," by Professor C. F. Bastable, in his "Theory of International Trade," Dublin 1887, and would conclude this letter with an extract from my memorandum on "Prices," printed in the proceedings of the Royal Gold and Silver Commission 1886-9: "The genius who may devise some means, without an overt or covert attempt at a fixed relation between gold and silver, to relieve debtors from the additional burden which the breakdown of the monstrous delusion of bimetallism has entailed, and without injuring the residents of Great Britain and other countries which may be similarly situated, will earn a very prominent niche in the Walhalla of the nations of the world."

Yours, &c.,

J. H. NORMAN.

Oct. 26th 1895.

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